

Summary of Reports Tabled during 2002-2003

Report 390, Review of Auditor-General's Reports 2001-2002, First, Second and Third Quarters

- 2.1 The Committee reviewed four of the 38 reports tabled by the Auditor-General in the first, second and third quarters of 2001—2002. The four reports were:
- *Audit Report No. 3, The Australian Taxation Office's Administration of Taxation Rulings, Australian Taxation Office;*
 - *Audit Report No. 4, Commonwealth Estate Property Sales, Department of Finance and Administration;*
 - *Audit Report No. 11, Administration of the Federation Fund Programme, Various agencies; and*
 - *Audit Report No. 22, Personnel Security—Management of Security Clearances.*
- 2.2 Report 390 contains nine recommendations and was tabled on 28 August 2002.

- 2.3 No Executive Minutes to Report 390 had been received at the tabling of this annual report and the Committee is following up responses. The lack of responses to this report has also prompted the Committee to review and improve its processes for tracking the delivery and timeliness of Executive Minutes.

Report 391, Review of Independent Auditing by Registered Company Auditors

- 2.4 This report, tabled on 18 September 2002, presented the JCPAA's review of Independent Auditing by Registered Company Auditors. The review arose in light of a significant number of high profile corporate failures in Australia.
- 2.5 The Committee's findings were based on a number of observations of both the audit and accounting profession and the business community, which shaped the ensuing framework of recommendations. The Committee's findings were also influenced by their longstanding involvement in corporate governance and the audit framework governing accountability in the public sector.
- 2.6 The Committee's proposed solutions were designed to address these issues and compel companies and auditors to enhance their management of corporate governance and audit independence. Rather than advocating prescriptive regulation and mandating arbitrary limits or benchmarks, the central element of the Committee's proposed reforms was to provide a framework enabling a broadening of the scope of the audit function to include, for example, corporate governance, risk management, internal control issues and other performance-type issues. To support this new framework and the process of management improvement (and to promote more transparency) the Committee also proposed an enhanced oversight role for the existing regulator, the Australian Securities and Investments Commission (ASIC).
- 2.7 The key findings and recommendations of the report include that:
- The *Corporations Act 2001* be amended:
 - ⇒ to require the Chief Executive Officer and Chief Financial Officer of a company to sign a statutory declaration that the company's financial reports comply with the *Corporations Act 2001* and are materially truthful and complete;

- ⇒ to require all publicly listed companies to have an audit committee of independent members;
 - ⇒ to require audit firms to report annually to ASIC on independence issues;
 - ⇒ to clarify the relationship between the need for financial statements to comply with accounting standards and provide a true and fair view; and
 - ⇒ to include a general statement on audit independence
- the Financial Reporting Council develop a set of corporate governance standards, which would be given legislative backing in the *Corporations Act 2001*;
 - the Australian Stock Exchange Listing Rules be amended to require additional reporting by companies;
 - ASIC explore the cost and benefits of introducing performance audits in the private sector and, in conjunction with the Australian Stock Exchange, evaluate the costs and benefits of requiring pronouncements and other disclosures under the continuous disclosure listing rule to be subject to a credible degree of assurance; and
 - a framework for protected (or whistleblower) disclosure be established in the *Corporations Act 2001*, including clear accountability mechanisms over the administration and management of disclosures.

2.8 Central to this report was the need for directors and auditors to certify that accounts both comply with Australian accounting standards and also represent a true and fair representation of a company's affairs. There was much confusion in the evidence provided to the Committee on this very important issue. The Committee's recommendation in this regard would clarify the Corporations Act and ensure that accounts not only comply with Australian Accounting standards but also represent a true and fair view of a company's financial affairs.

2.9 The Committee also considered that reform in the area of auditors' liability was important in order to ensure there was an appropriate balance between the risks associated with auditing and ensuring the public interest was protected and maintained. The three main areas of reform identified as being needed were:

- that the principle of *joint and several liability* be replaced with the principle of *proportional liability*, so as to provide a more equitable basis for allocating damages;
 - that *the Corporations Act 2001* be amended so that audit firms can operate within limited liability structures; and
 - that a cap for professional liability claims be introduced in order to limit the quantum of damages which can be awarded against auditors.
- 2.10 In addition, the Committee was particularly attracted to the idea of Independence Boards within audit/accounting firms as proposed by Professor Keith Houghton. At the time of the report's tabling, one of the 'Big Four' had proceeded with implementation of Professor Houghton's proposal, one was considering implementation and one believed it achieves the same outcomes in a slightly different manner.
- 2.11 It is significant that this was the first time the JCPAA had undertaken an inquiry into private sector issues. Nevertheless, the JCPAA has a long history of actively seeking to strengthen the role and independence of the Commonwealth auditor as an essential agent of government accountability to the Parliament and ensuring good corporate governance in the public sector. This inquiry was an opportunity for the Committee to bring its expertise in audit and corporate governance matters to bear on the issue of audit independence generally.
- 2.12 The Government indicated that it would formally respond to Report 391 once the Corporate Law Economic Reform Program (CLERP) No. 9 as been finalised (sometime after November 2003).¹

Report 392, Annual Report, 2001–2002

1 Parliamentary Secretary to the Treasurer, Senator the Hon Ian Campbell to Chairman of the Joint Committee of Public Accounts and Audit, 3 February 2003.

Report 393, Review of Auditor-General's Reports 2001–2002, Fourth Quarter

- 2.13 The Committee reviewed four of the 29 reports tabled by the Auditor-General in the fourth quarter of 2001—2002. The four reports were:
- *Audit Report No. 40, Corporate Governance in the Australian Broadcasting Corporation;*
 - *Audit Report No. 51, Research Project Management;*
 - *Audit Report No. 57, Management Framework for Preventing Unlawful Entry into Australian Territory; and*
 - *Audit Report No. 63, Management of the Dasfleet Tied Contract.*
- 2.14 Report 393 made eight recommendations and was tabled on 12 February 2003.
- 2.15 The following Executive Minutes have been received for this report:
- From the Australian Broadcasting Corporation (ABC) supporting **Recommendation 1** that the ABC develop and implement a process of measuring performance data in urban, regional and rural Australia which provides timely and effective information in relation to its fulfilment of Charter obligations;
 - From the ABC supporting **Recommendation 2** that the ABC, as a matter of priority, develop and implement a process for using performance data to inform corporate planning;
 - From the ABC supporting **Recommendation 3** that the ABC specifically report on its performance against Charter obligations in its annual report to Parliament;
 - From the Minister for Science fully supporting **Recommendation 4** that the Commonwealth Scientific and Industrial Research Organisation (CSIRO) develop and implement a consistent and coherent model of project management across the Organisation;
 - From the Minister for Science supporting with qualification **Recommendation 5** that the CSIRO develop and implement clear and consistent policy guidelines for the retention of intellectual property;
 - From the Minister of Immigration and Multicultural and Indigenous Affairs supporting **Recommendation 6** that the Department of Immigration and Multicultural and Indigenous

Affairs (DIMIA) make better use of its information sources, evaluate the effectiveness of its current operations, and coordinate the sharing of its information with other agencies;

- From the Minister of Finance and Administration agreeing in principle with **Recommendation 7** that the Department of Finance and Administration (DOFA) improve its records management practices with regard to dispute resolution activities; and
- From the Minister of Finance and Administration agreeing in principle with **Recommendation 8** that in future, DOFA's requests for legal opinions are written requests.

2.16 The Committee is pleased to note that all its recommendations were agreed to or, at the very least, agreed to in principle. The acceptance of the recommendations demonstrates that the Committee plays an important value-adding role in reviewing the implementation by agencies of recommendations made by the Auditor-General.

Report 394, Review of Australia's Quarantine Function

2.17 This report, tabled on 5 March 2003, presented the JCPAA's review of Australia's quarantine function. The review arose from the Committee's statutory obligation to review reports of the Auditor-General, in this case *Audit Report 47 2000-01, Managing for Quarantine Effectiveness* which was tabled in June 2001.

2.18 Following the foot and mouth disease outbreak in the United Kingdom in February 2001, the Government provided in the 2001-02 Budget almost \$600m over 4 years to strengthen Australia's defence against the introduction of exotic pests and diseases.

2.19 The Committee sought to reassure the Parliament that the Auditor-General's recommendations have been carried through, and that the additional funds allocated to the quarantine function were being well spent.

2.20 In general, the Committee believed Australia's quarantine function was in good shape and the additional funding was being appropriately used. It is not possible for Australia to adopt a zero risk stance as regards quarantine so there will be incursions of exotic pests and diseases from time to time. The Committee believed Australia is well placed to meet those threats.

- 2.21 The report is in four parts; firstly a review of the parameters within which Australia must operate as a member of the World Trade Organisation (WTO); secondly a review of border operations; thirdly a review of Australia's quarantine preparedness; and finally a review of efforts to educate stakeholders and the public, and maintain awareness of quarantine issues.
- 2.22 In the report the Committee made thirteen recommendations designed to enhance Australia's quarantine function.
- 2.23 No Executive Minute or Government Response to Report 394 had been received at the tabling of this annual report. The Committee understands that the Government is continuing to consider the recommendations.

